

How Much Is Your Practice Really Worth? and...

HOW TO BUY AND SELL ONE

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The chiropractic profession has been growing in a new dimension in recent years. Just as more DCs are reaching the turning point of their careers when retirement becomes a reality, more and more new DCs are graduating and looking to purchase these practices for a variety of reasons, not the least of which is the growing costs and risks associated with start-ups. But just how easy is this endeavor? Here's a closer look at what you can expect, depending on which side of the bargaining table you're on.

There are at least three parties to every business transaction. The buyer, the seller, and the IRS. Accordingly, the factors that go into establishing a fair price encompasses careful consideration beginning with identifying the needs of the buyer and the seller. While knowing the needs of each party makes for better understanding, almost anyone who has purchased a practice, or sold one can tell you stories about their frustrations with this single transaction. Many times the purchase of a practice is the single largest investment the buyer has made to date. Understandably, the concerns, the analysis, and the negotiations can easily be clouded by doubts, and be influenced by people who are not party to the transaction. Delay can turn into paralysis and before long, a once eager buyer has lost interest, often to another opportunity.

Negotiations on the part of the seller can also become a difficulty. Sometimes the owner, having poured years of love and labor into establishing the practice, may be reluctant to negotiate away "too much." The price, and the terms and conditions are sensitive points for the seller. After all, regardless of guarantees, unless it is a cash sale in full, the seller remains at risk, often for months or years. Suppose the patients don't stay after the transfer? Suppose the buyer defaults on the notes? These can be just a few of the security concerns that can become nightmares for any seller if not properly handled or addressed. The key to successful negotiations is for the buyer and seller to come to a "meeting of the minds" wherein security, and terms for both parties can be agreed upon.

Where to begin? If you are the buyer, here are the first steps:

1. Determine the state(s) and geographic area which interest you.
2. Mail a personal letter to all established practitioners in the area(s) you are interested in, advising them of your interest. Be sure to indicate your requirements, i.e., large capacity office, established trained staff, x-ray unit on premises, approximate patient volume, technique, philosophy, etc.
3. Scan the classified section of national journals, and the newsletters of local professional societies and associations.

If you are the seller, you'll want to list your practice with as many "non-exclusive" practice brokers

as possible. Run advertisements and contact your state licensing boards to obtain recent licensure lists of DCs who just passed the state boards. These can all be excellent sources of prospective buyers. Be sure to indicate everything that's important to you, i.e., your approximate patient volume, how long you've been established, gross collections, chiropractic technique, etc. It would also be important to indicate if you are available for transition and what financing, if any, you are making available. Tailor the list in accordance with your needs and the needs of your patients.

Once the buyer and seller meet, it is usual and customary for the buyer to request:

1. statistics for at least 12 months (broken down monthly) indicating new patients, patient visits, services, and collections;
2. list of all equipment and its condition;
3. approximate breakdown of the percentage of personal injury, workers' compensation, insurance, cash and union patients;
4. list of expenses/overhead; and
5. tax returns for three years.

At this point the following three professionals should be secured independently on both the buyer's behalf and seller's behalf:

- a. an accountant experienced in practice purchases/sales;
- b. an attorney experienced in practice purchases/sales;
- c. a practice management consultant or broker experienced in practice purchases/sales.

A proper analysis of the above practice data should yield:

- a. approximate value of the practice; and
- b. approximate patient attrition rate (patient drop off after seller leaves).

As with any analysis, there are qualitative intangible factors that affect the sale price which cannot be tabulated. Even the most sophisticated analytical formulas can only provide an approximate value. The unique qualitative factors of each practice, such as location, sources of new patients, security of staff and relationship of the parties, must be taken into account.

Selected List of Buyer/Seller Motivations and Needs

Buyers' Motivations

- fear of opening without patient flow
- lack of confidence/expertise

- location -- special opportunity (i.e., relative D.C. retiring) -- lack of financing (i.e., seller will hold notes)

Buyers' Needs

- transferable office lease
- flexible financing
- an attractive price
- restrictive covenant from the seller

Tax Needs

-- allocate maximum amount of purchase price for deductible items

Sellers' Motivations

- moving out of area
- retirement
- satellite office sale
- needs capital
- disability/illness
- personal (i.e., divorce) -- easier to start over than fix problems (i.e., may be at maximum capacity for space) -- partnership buy-in or buy-out

Sellers' Needs

- liens on all equipment and accounts receivable until notes are paid in
- life and disability insurance on the purchaser
- allocate as high a price as possible to goodwill and accounts receivable to pay capital gains

There are three or more good valuation systems, that range from cash flow analysis to a percentage of gross income. Here are some parameters:

Sales Comparison Approach

This approach is based on sales of similar size practices with similar incomes, adjusted upward or downward in price based on dissimilar factors. While this approach most accurately indicates the "pulse" of the market for similar practices, some brokers may not have experienced enough sales of similar size practices or incomes in the same general geographic area to give an accurate valuation.

Income Approach

This popular approach is based on gross income of the subject practice. The formula is 10 times the average month's gross collections during the previous year. It reflects the thinking of a vast number of buyers who believe that cash flow can be used to predict ability to pay down loans necessary to fund the purchase itself. Unfortunately, it leaves a great deal of qualitative factors out of its formula, such as: Is the practice a PI practice? Typically, unless it is a partnership buy-in or buy-out, a PI practice is more difficult to transfer due to the relationships with relatively few sources of new patients.

Net Asset Approach

This approach takes into account the assets of the practice as well as the gross revenue. One popular ratio is taking 30 percent of the gross collections plus the adjusted net assets of the practice. Once again, qualitative factors remain immeasurable yet valuable to the parties. Will the staff be staying to offer stability after the seller leaves? Have patients been adequately educated to return for care?

Again, each approach is commonly used. But each has its specific shortcomings. The stock brokers saying that "something is only worth what somebody else is willing to pay" holds true in the sale of every chiropractic practice today. The best advice is to get the best advice. And by all means....plan ahead!

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